

File



1980 ANNUAL REPORT

Somerville Belkin Industries Limited

Somerville Belkin Industries Limited,
with its head office located in Mississauga,
Ontario, operates twelve plants — in Montreal,
Brockville, Toronto, Bramalea, London, Windsor,
Winnipeg, Edmonton, Richmond, and Burnaby.
The Company produces folding cartons, flexible
packaging, vacuum formed, compression and
injection moulded plastics, automotive products,
and provides merchandising services.

Report to Shareholders



Morris Belkin



Robert F. Krause

Sales of Somerville Belkin Industries Limited for the fiscal year ended September 30, 1980 amounted to \$133,839,000 compared to \$112,399,000 in the previous year. National Paper Box results were included for the full year compared with five months in 1979.

Net income increased 34% to \$2,314,000 from \$1,725,000 in 1979 due to improved eastern packaging results and a full year of operations for National Paper Box. Operating cash flow for the year was \$5,343,000 as compared to \$4,121,000 in fiscal 1979. However, earnings were adversely affected by the residual impacts of a labour strike in 1979 at the Montreal and London packaging plants, the downturn of the automotive industry and increased interest rates.

Packaging sales for the twelve months to September 30, 1980 were \$120,432,000 compared to \$92,484,000 achieved in the comparable period of 1979. Other divisions of the Company achieved sales of \$13,407,000 which compares with \$19,915,000 in the previous year. The increase in packaging sales reflects strong second half sales following the strike impact as well as the inclusion of National Paper Box for the full year in 1980. The decrease in other sales was attributable to the weak domestic automotive sector.

The Brockville Packaging Division again experienced a significant improvement in profitability and the income contribution improved for all other packaging divisions except Montreal and Toronto where the strike impact was greatest.

Earnings contribution from the Plastics Division improved over fiscal 1979 but Merchandising Services and Games were below the previous year. The Games Division was sold in September 1979 and products are now manufactured for the purchaser under contractual arrangements.

On November 12, 1980 the Company announced its decision to cease manufacturing in the Scarborough plant of the Automotive Products Division. All operations will be phased out over several months and the plant closed. Following a successful year in 1979, the business operated with a very large financial loss in 1980 due to the downturn in the sales of automobiles. Because of the withdrawal of major amounts of business for placement in the United States by our customers, the plant was left with an uneconomic volume of business. Efforts to sell the business as a going concern or to attract substantial new sales volume proved to be unsuccessful. The effect of selling the building, machinery and equipment and assisting employees affected, cannot be determined at this time.

The Company's equity earnings in Mastico Industries Limited, in which it holds a 50% interest, were \$177,000 compared to \$307,000 in 1979. Continuing efforts to expand into non-automotive markets were not sufficient to overcome the effects of decreased car sales in 1980.

A major expansion of facilities is planned in Brockville where a new 8 colour 44" Gravure press will be installed in the second half of fiscal 1981. The equipment is the latest and most modern of its type available.

In July 1980 the board of directors was reduced from seven to five members following acquisition by the parent company of the interest in its common shares formerly held by a major shareholder. It was with regret that we accepted the resignations as directors of Peter A. Cherniavsky and Forrest Rogers and we thank them for their contributions.

We wish to express our appreciation for the continuing support of all our employees this past year.

While the improved earnings for 1980 were still not at satisfactory levels, we are looking forward to next year with cautious optimism.

M. Belkin,
Chairman of the Board

Robert F. Krause,
President and Chief Executive Officer

Consolidated Balance Sheet

(000's omitted)

Somerville Belkin Industries Limited
(Incorporated under the laws of Canada)
As at September 30, 1980

ASSETS	1980	1979
Current Assets		
Accounts receivable	\$17,345	\$18,777
Receivable from parent company, Belkin Packaging Ltd.	557	876
Income taxes recoverable		263
Inventories (note 3)	29,175	26,408
Prepaid expenses	374	639
	<u>47,451</u>	<u>46,963</u>
Investments		
Shares in 50% owned company — Mastico Industries Limited — at equity value.....	1,307	1,230
Sinking fund for preferred shares — government and industrial bonds at market values (cost \$115)	94	108
	<u>1,401</u>	<u>1,338</u>
Fixed Assets (note 4)		
Land, buildings and equipment	46,295	43,864
Less accumulated depreciation.....	20,933	19,080
	<u>25,362</u>	<u>24,784</u>
Intangibles		
Debt financing costs	169	182
Preproduction costs	495	467
	<u>664</u>	<u>649</u>
	<u>\$74,878</u>	<u>\$73,734</u>

Approved by the Board
M. Belkin, Director
R. F. Krause, Director

LIABILITIES**1980****1979**

Current Liabilities

Bank advances (note 5).....	\$21,290	\$21,465
Accounts payable and accrued liabilities.....	8,695	10,346
Income and other taxes payable.....	656	573
Dividends payable.....	20	20
Long term debt payable within one year.....	852	480
	<u>31,513</u>	<u>32,884</u>

Long term debt (note 6)	<u>11,844</u>	<u>13,702</u>
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Income taxes provided not currently payable	<u>7,225</u>	<u>6,399</u>
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Shareholders' equity

Capital stock (note 7).....	20,859	13,875
Retained earnings.....	2,515	5,952
Excess of appraised value of fixed assets over cost	922	922
	<u>24,296</u>	<u>20,749</u>

\$74,878**\$73,734**

Consolidated Statement of Retained Earnings

(000's omitted)

Somerville Belkin Industries Limited
Year ended September 30, 1980

	<u>1980</u>	<u>1979</u>
Balance at beginning of year	\$ 5,952	\$ 4,309
Net income.....	<u>2,314</u>	<u>1,725</u>
	<u>8,266</u>	<u>6,034</u>
Dividends		
Paid in cash		
Preferred shares, 1953 Series	79	82
Common shares	<u>672</u>	<u>82</u>
	<u>751</u>	<u>82</u>
Paid in common shares (note 7 [d]).....	<u>5,000</u>	<u>5,000</u>
Balance at end of year	<u><u>\$ 2,515</u></u>	<u><u>\$ 5,952</u></u>

Consolidated Statement of Income

(000's omitted)

Somerville Belkin Industries Limited
Year ended September 30, 1980

	<u>1980</u>	<u>1979</u>
Sales	<u>\$133,839</u>	<u>\$112,399</u>
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items	123,648	105,128
Depreciation	2,135	1,830
Interest on long term debt	1,380	1,231
Other interest	3,299	1,756
Amortization of preproduction costs	156	150
Amortization of debt financing costs	13	13
	<u>130,631</u>	<u>110,108</u>
Income from operations	3,208	2,291
Equity in income of Mastico Industries Limited	<u>177</u>	<u>307</u>
Income before income taxes	3,385	2,598
Income taxes	<u>1,071</u>	<u>873</u>
Net income	<u>\$ 2,314</u>	<u>\$ 1,725</u>
Earnings per common share (note 1 [f])	\$3.32	\$2.44

Consolidated Statement of Changes in Financial Position

(000's omitted)

Somerville Belkin Industries Limited
Year ended September 30, 1980

	<u>1980</u>	<u>1979</u>
Working capital derived from		
Operations		
Net income	\$ 2,314	\$ 1,725
Items not involving working capital		
Depreciation	2,135	1,830
Income taxes provided not currently payable.....	826	1,059
Increase in equity in Mastico Industries Limited	(77)	(107)
Amortization of preproduction costs.....	156	150
Amortization of debt financing costs	13	13
	5,367	4,670
Issue of common shares	5,000	
Issue of preferred shares (1980 series).....	2,000	
Obligations under capital leases	1,036	
Term bank loan	750	
Reduction of sinking fund for preferred shares	14	
Financing for purchase of National Paper Box division		
Note payable.....		2,750
Term bank loan		1,562
	14,167	8,982
Working capital applied to		
Purchase of National Paper Box division (net of working capital of \$3,000)		5,250
Purchase of fixed assets (net of disposals).....	2,713	839
Dividends	5,751	82
Reduction in long term debt.....	3,644	480
Preproduction costs	184	
Purchase of preferred shares for cancellation	16	52
	12,308	6,703
Increase in working capital	1,859	2,279
Working capital at beginning of year	14,079	11,800
Working capital at end of year	\$15,938	\$14,079

Notes to Consolidated Financial Statements

Somerville Belkin Industries Limited
September 30, 1980

1. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of Canadian Folding Cartons Limited and Somerville Automotive Trim Limited. These wholly owned subsidiaries are inactive.

(b) Inventories

Inventories are valued using the first in first out method. Raw materials and supplies are valued at the lower of cost and net realizable value. Work in process and finished goods are valued at the lower of cost, which includes an allocation of factory overhead, and net realizable value.

(c) Fixed assets and depreciation

Buildings and equipment, including equipment under capital leases, are stated at cost except for buildings owned in 1951 and equipment owned in 1955, which are stated at depreciated replacement values in accordance with appraisals made in those years. Other fixed assets and additions subsequent to the appraisals have been shown at cost, which includes, since 1976, interest paid on funds borrowed for major equipment additions. Depreciation is provided on a straight-line basis over the estimated useful lives of the fixed assets.

(d) Debt financing costs

Debt financing costs related to the 8.5% Series A sinking fund debentures are being amortized over the twenty year term of the issue on a straight-line basis.

(e) Preproduction costs

The Company follows the practice of deferring costs associated with major plant expansions and amortizes these costs over the five year period immediately following the commencement of commercial production.

(f) Earnings per common share

The 1979 earnings per common share have been restated to give retroactive effect to the increase in issued common shares as a result of the 1980 common stock dividend (note 7 [d]).

2. Change in accounting policy

In the current year, the Company adopted the recommendation of the Canadian Institute of Chartered Accountants related to accounting for leases. As a result, leases entered into after September 30, 1979 that transfer substantially all of the benefits and risks of ownership of property are classified as capital leases and are recorded as if fixed assets had been purchased and an equivalent debt obligation incurred. The assets so recorded, are described as Equipment Under Capital Leases and are depreciated on a straight-line basis. The debt obligations are described as Obligations Under Capital Leases and are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases and the rental costs are expensed as incurred.

The effect of this change in accounting policy was a reduction in net income in 1980 of \$11,000. If this change in accounting policy had been applied retroactively to capital leases in existence on September 30, 1979 Equipment Under Capital Leases, less depreciation, and Obligations Under Capital Leases at September 30, 1980 would have increased by \$3,755,000 and \$3,785,000 respectively and net income would have been reduced by \$30,000.

3. Inventories

	1980	1979
	(000's)	(000's)
Raw materials and supplies	\$10,777	\$10,772
Work in process	5,380	5,998
Finished goods	13,018	9,638
	<u>\$29,175</u>	<u>\$26,408</u>

4. Fixed assets

	1980		1979	
	Cost	Accumulated depreciation	Net	Net
	(Note 1 [c]) (000's)	(000's)	(000's)	(000's)
Land	\$ 2,624		\$ 2,624	\$ 2,594
Buildings	10,200	\$ 3,073	7,127	7,246
Machinery and equipment	31,827	17,643	14,184	14,699
Equipment under capital leases	1,016	63	953	
Leasehold improvements	628	154	474	245
	<u>\$46,295</u>	<u>\$20,933</u>	<u>\$25,362</u>	<u>\$24,784</u>

5. Bank advances

The bank advances are secured by a general assignment of accounts receivable and inventories.

6. Long term debt

	1980	1979
	(000's)	(000's)
(a) 8.5% Series A sinking fund debentures due April 1, 1993	\$ 7,140	\$ 7,320
(b) Term bank loan, with interest at 1.25% above bank prime rate, payable \$75,000 quarterly, plus interest	2,250	2,550
Term bank loan, with interest at 1.25% above bank prime rate, payable \$135,000 quarterly, plus interest, commencing on June 1, 1981	2,312	1,562
11.5% Note payable due January 31, 1980		2,750
(c) Obligations under capital leases	994	
	12,696	14,182
(d) Less payable within one year	852	480
	<u>\$11,844</u>	<u>\$13,702</u>

(a) Under the terms of the Trust Indenture the 8.5% Series A sinking fund debentures are secured by a floating charge on the assets of the Company.

(b) The term bank loans are secured by a fixed and floating charge on the assets of certain operating divisions.

(c) The following table discloses minimum rental payments after September 30, 1980 under all lease commitments together with the present value of the obligations under capital leases entered into after September 30, 1979:

Fiscal year	Capital leases entered into after Sept. 30, 1979	Other leases	Total
	(000's)	(000's)	(000's)
1981	\$ 222	\$1,197	\$1,419
1982	222	1,158	1,380
1983	222	1,058	1,280
1984	201	1,060	1,261
1985	177	907	1,084
Thereafter to 1997	399	4,181	4,580
Total minimum rental payments	1,443	<u>\$9,561</u>	<u>\$11,004</u>
Less amount representing interest	449		
Balance of obligations	<u>\$ 994</u>		

(d) Principal due on long term debt during the next five fiscal years is as follows:

	(000's)
1981	\$ 852
1982	1,142
1983	1,162
1984	1,379
1985	1,253

7. Capital stock

(a) The authorized capital of the Company consists of common and preferred shares of no par value.

The Company has restricted by its articles the maximum number of preferred shares that can be issued to 169,422. The number of common shares that can be issued is unlimited.

(b) Issued and outstanding

	Number of shares		Amount	
	1980	1979	1980	1979
			(000's)	(000's)
Preferred shares				
\$2.80 Sinking fund cumulative, 1953 series, redeemable at \$51 per share	28,062	28,382	\$ 1,403	\$ 1,419
\$4.00 Non-cumulative subordinated, 1977 series, redeemable at \$51 per share	100,000	100,000	5,000	5,000
\$4.00 Non-cumulative subordinated, 1980 series, redeemable at \$51 per share	40,000		2,000	
	<u>168,062</u>	<u>128,382</u>	<u>8,403</u>	<u>6,419</u>
Common shares	<u>672,213</u>	<u>498,300</u>	<u>12,456</u>	<u>7,456</u>
			<u>\$20,859</u>	<u>\$13,875</u>

(c) During the year the Company purchased for cancellation 320 preferred shares, 1953 series (1979 — 1,040 shares).

(d) During the year the Company paid a common stock dividend of 173,913 common shares at a value of \$28.75 per share.

(e) During the year the Company amended its articles to create an additional 40,000 preferred shares and issued these shares as the 1980 series preferred for \$50.00 per share in cash.

8. Segmented information

In the opinion of the Directors, the major classes of business are as follows:

	Industry segments:							
	Packaging		Automotive		Other		Consolidated	
	1980	1979	1980	1979	1980	1979	1980	1979
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Sales	120,432	92,484	6,200	10,175	7,207	9,740	133,839	112,399
Segmented operating profit (loss)	9,717	5,045	(486)	1,156	389	526	9,620	6,727
General corporate expenses							(1,733)	(1,449)
Interest expense							(4,679)	(2,987)
Equity in income of Mastico Industries Limited							177	307
Income taxes							(1,071)	(873)
Net income							2,314	1,725
Identifiable assets	65,701	62,377	4,232	4,760	2,716	3,594	72,649	70,731
Corporate assets							922	1,773
Investment in Mastico Industries Limited							1,307	1,230
Total assets							74,878	73,734
Net capital expenditures	1,973	432	652	357	88	50	2,713	839
Depreciation	1,724	1,443	244	180	167	207	2,135	1,830

9. Commitments

The Company has entered into an agreement to purchase equipment in the amount of \$2,150,000 of which \$430,000 was paid in the current fiscal year.

10. Subsequent event

On November 12, 1980 the Company announced its decision to cease manufacturing in the Scarborough plant of the Automotive Products Division. The operations will be phased out over several months and the plant closed. The final effect of this decision cannot be determined at present.

11. Related party transactions

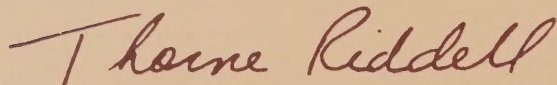
During the year, the Company purchased raw materials totalling \$9,364,000 from its parent company at the same terms and prices as those offered to third parties. The Company also paid a management fee of \$840,000 to its parent company.

Auditors' Report

To the Shareholders of
Somerville Belkin Industries Limited

We have examined the consolidated balance sheet of Somerville Belkin Industries Limited as at September 30, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting for capital leases as described in note 2, have been applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, reading "Thorne Riddell". The signature is written in a cursive, flowing style with a large initial 'T'.

Chartered Accountants
London, Canada
December 9, 1980

Directors

Morris Belkin
Robert F. Krause
Ian A. MacDonald
Douglas J. McKinnon
David H. Gordon

Head Office

2000 Argentia Road
Plaza 5, Suite 301
Mississauga, Ontario

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal,
Winnipeg and Vancouver

Stock Listing

The Toronto Stock Exchange

Auditors

Thorne Riddell

Officers

Morris Belkin
Chairman of the Board

Robert F. Krause
President and
Chief Executive Officer

Leslie A. Biddie
Group Vice-President —
Packaging Divisions — East

Patrick B. McGarry
Group Vice-President —
Packaging Divisions — West

James C. Bacon
Group Vice-President —
Special Products Divisions

Thomas E. White
Vice-President,
Industrial Relations

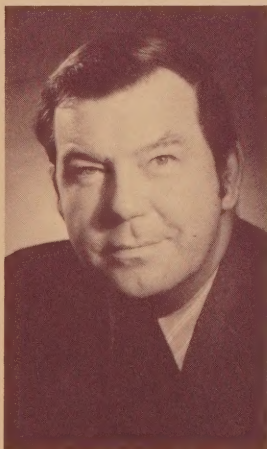
Barry F. Boardman
Vice-President,
Finance and Secretary

W. Ernest Doyle
Corporate Controller

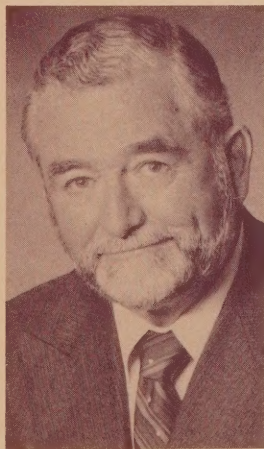
Douglas J. McKinnon
Assistant Secretary



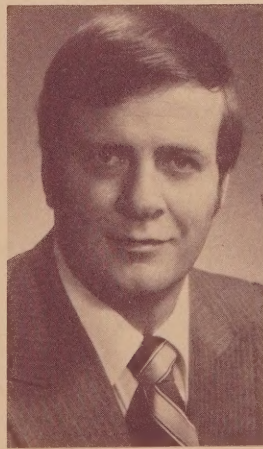
James C. Bacon



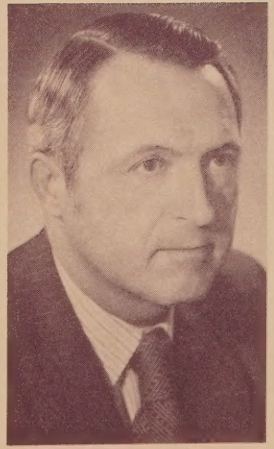
Leslie A. Biddie



Patrick B. McGarry



Thomas E. White



Barry F. Boardman

